REPORT

OF THE

Indian Tariff Board

ON THE

COCOA POWDER AND CHOCOLATE INDUSTRY

PERSONNEL OF THE BOARD

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APPENDICES

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Reference to the Board.

In pursuance of paragraphs 2, 3 and 7 of the Department of Commerce Resolution No. 218-T(55)/45, dated the 3rd November 1945 (Appendix I), the Government of India, by their Resolution in the Department of Commerce No. 218-T (55)/45, dated the 16th February 1946 (Appendix II), referred to the Tariff Board the application of the cocoa powder and chocolate industry for protection or assistance.

Application for protection.

2. On the 25th August 1941, the Mahratta Chamber of Commerce, Poona, submitted, on behalf of Messrs. Sathe Brothers, Poona, an application to the Government of India, Department of Finance, asking for the removal of the import duty on cocoa beans, which was then leviable at the rate of 25 per cent. *ad valorem*, on the grounds that the duty charged on this raw material was the same as that levied on the finished products, *viz.*, cocoa powder and chocolate other than confectionery, and that cocoa beans from the Empire countries were being admitted free of duty into Great Britain and Australia under their respective tariffs. The request was, however, not granted, no reasons being assigned. A fresh application was made on the 2nd March 1945, and again on the 13th September 1945, requesting that (*a*) the question of getting an adequate quota of cocoa beans for India be taken up with the Combined Food Board in Washington and with the Ceylon Government, and (*b*) that the import duty on cocoa beans be removed. This case was supported by the Indian Merchants Chamber, Bombay, in a letter dated the 6th October 1945, addressed to the Government of India, Department of Commerce. The application was resubmitted once more by the Mahratta Chamber of Commerce on the 1st December 1945. It was then that the case was referred to the Tariff Board.

Method of inquiry.

3. The Board issued a Press Communique on the 19th February 1946, inviting firms, associations and persons interested in this industry or dependent upon it for their raw materials or semi-manufactured goods, who desired that their views should be considered by the Board, to submit their representations by the 31st March 1946. Detailed questionnaires for producers, importers and consumers were issued between the 27th February and 26th April 1946. A list of firms, associations and persons who submitted representations to the Board is given in Appendix III. Mr. C. C. Desai visited the Sathe factory in Poona on the 13th and 14th July, and Dr. H. L. Dey visited the Pure Products factory in Bombay on the 16th July 1946. Mr. P. V. R. Rao, the Cost Accounts Officer attached to the Board, with the help of Dr. V. V. Kelkar, the Board's Technical Adviser, investigated the cost of production of the Sathe factory, Poona, about the middle of July 1946. The oral evidence of representatives of producers, consumers and importers was taken in Bombay on the 22nd July 1946. A list of the witnesses examined is given in Appendix IV.

History of the industry.

4. The wartime restriction on imports of cocoa powder and chocolate created a somewhat favourable situation for the production of these articles in India, and Messrs. Sathe Brothers, Poona, who had been already manufacturing biscuits, started to produce cocoa powder and covering chocolate early in 1941. Their plant

was a small one with a capacity of half a ton of covering chocolate per day. All the machinery was bought in India, but it was somewhat antiquated and not up to the mark. Sathe Brothers have been producing mostly cocoa powder and covering chocolate, and only small quantities of eating chocolate. During the three years 1942-43 to 1944-45, their average annual output of cocoa powder was 249 cwts. or 12·45 tons, of covering chocolate 1,050 cwts. or 52·5 tons, and of eating chocolate 276 lbs. or 2·43 cwts. Theirs is practically the only firm that has been producing cocoa powder and covering chocolate on any large scale during the last five years. They have recently imported a second-hand, reconditioned chocolate plant from U. S. A., and are also at present negotiating for the importation of a cocoa plant from the same country. Their productive capacity with the new plant is expected to be 240 tons of covering chocolate and 60 tons of cocoa powder a year. Last year, they set up a subsidiary factory at Karachi, Sind, which started production on a small scale in December 1945. Messrs. Pure Products Ltd., Bombay, a private limited company, engaged in manufacturing mostly fruit products and confectionery, also produce small quantities of covering chocolate for their confectionery section and some cocoa powder. The G. G. Chocolate Factory, Agra, has also been producing small quantities of eating chocolate since 1943. It does not, however, produce any covering chocolate which is obtained by it from importers or from Sathe Brothers. There are a few other small-scale producers of eating chocolate in Bombay, Calcutta, Madras and other places, but no details regarding their capacity and output are available.

Raw materials.

5 *Cocoa beans.*—The principal raw material of this industry is cocoa beans, which are grown chiefly in Brazil, West Africa and Ceylon. We understand that the Brazilian beans are the best, West African ones are slightly inferior, while those from Ceylon take the third place. During the last few years, cocoa beans were in short supply, and their allocation to different countries was based on international agreement. So far as the British Empire was concerned, the quota allotment for different countries was made by the Combined Food Board and Ministry of Food in London, and allocation of cocoa beans to India was made from Ceylon. It has been represented to us that this system of allocation has put the Indian manufacturers of cocoa powder and chocolate at a considerable disadvantage as compared with the manufacturers in U. K., because cocoa beans from Ceylon are inferior in quality to, and more expensive than, the South American and West African beans which are available to British manufacturers. A further handicap imposed by this system on the Indian producers is that, unlike manufacturers in other countries, they have no opportunity to blend different qualities of cocoa beans so as to obtain a good flavour for their product.

6. *Other raw materials.*—The other raw materials required are sugar (for chocolate) and flavour. Besides, several packing materials such as cellophane paper, aluminium foils, tins and cardboard boxes are also necessary. So far as sugar is concerned, the supply position has been rather acute in recent years and the cocoa and chocolate manufacturers have complained that the quota allotted to them has been insufficient. This was put forward as one of the reasons why the full productive capacity could not be utilised by them. Cellophane paper is imported from abroad, while tins and cardboard boxes are made in India and aluminium foil will shortly be made in India.

Process of manufacture.

7. *Chocolate.*—Cocoa beans are cleaned by hand and then roasted, shelled and winnowed so as to obtain the cocoa nibs. These cocoa nibs are ground into paste in a stone mill consisting of several pairs of grinding stones. The paste after cooling sets to a hard brown block. This is known as cocoa mass or unsweetened chocolate. The cocoa mass is mixed with sugar and cocoa butter or some other fat, and the charge is passed repeatedly through refiners so as to obtain a velvety mass without any gritty taste. Afterwards it is cooled and moulded into suitable blocks. This is the sweet chocolate or covering chocolate required for confectionery. The milk chocolate contains some addition of milk powder with a slight variation in the proportion of cocoa paste to sugar and cocoa butter.

8. *Cocoa powder.*—All the cocoa paste is not converted into chocolate, but a portion is pressed further in a hydraulic press, yielding some cocoa butter and cocoa cake. The cocoa cake still contains some cocoa butter. The cake is pulverised and kept in a cool room in order to absorb the cocoa butter. The ground cocoa is then sifted through a fine mesh (silk or cotton cloth) so as to give a fine powder which is mixed with a flavouring agent and again passed through another mesh to ensure homogeneous blending and uniform distribution of the flavouring material. This product is the cocoa powder used as a beverage.

Demand.

9. Cocoa and chocolate are entered as one single item in the accounts of the Sea-borne Trade of India. In the pre-war period, the entire demand was met by imports, mainly from U. K. Since 1941-42, however, imports have mostly come from South Africa and they have been supplemented by indigenous production. The figures of total demand in the pre-war period and in recent years are as follows :—

Quantity in cwts.

Year.	Imports.	Indigenous supply.	Total.
1935-36*	4,593	....	4,593
1936-37*	5,076	....	5,076
1937-38	4,594	....	4,594
1942-43	5,652	1,061	6,713
1943-44	3,961	1,621	5,582
1944-45	2,686	1,585	4,271

*Including imports into Burma.

10. The average annual demand in the three years 1935-36 to 1937-38 was 4,754 cwts., and that in the period 1942-43 to 1944-45 was 5,522 cwts. The representatives of principal importers informed the Board that, of the total imports, probably 50 per cent. was cocoa powder and 50 per cent. covering chocolate. It is estimated that the demand in the next three years will be 3,000 cwts. of cocoa powder and 5,000 cwts. of chocolate. To this, however, should be added the

demand for chocolate in the form of confectionery. During 1938-40, the average import of chocolate confectionery is estimated to have been 10,000 cwts. per annum. It is expected that the post-war demand for chocolate in the form of confectionery will be about 15,000 cwts. per annum. We were informed that confectionery chocolates (eating chocolates) contain about 80 per cent. covering chocolate. On this basis, covering chocolate required for 15,000 cwts. of confectionery would be about 12,000 cwts. The total demand for cocoa powder and covering chocolate per annum in the next three years will thus be as follows :—

	Cwts.
Cocoa powder	3,000
Covering chocolate	5,000
Covering chocolate contained in eating chocolate ..	12,000
Total ..	20,000

Indigenous production.

11. The productive capacity of the indigenous cocoa and chocolate industry in the next three years is estimated as follows :—

	Tons.
Sathe Brothers, Poona	300
Sathe Brothers, Karachi	100
Pure Products, Bombay	75
Others	85
Total ..	560
or	11,200 cwts.

Quality.

12. Representatives of the confectionery industry have complained that the locally produced cocoa powder and covering chocolate do not come up to the standard of imports. In particular, it has been stated that the covering chocolate produced at the Sathe Chocolate Works is gritty and does not contain enough of cocoa butter or substitute thereof. It is also said to be roughly blended and lacking in the necessary flavour. Sathe Brothers have admitted the presence of these defects in their chocolate, but they explained that this was largely due to the absence of proper machinery. They, however, expect that, with the help of the new machinery shortly to be installed, most of these defects will be remedied. At the same time, they have pointed out that the quality of the indigenous product cannot be expected to be on a par with that of the imported cocoa and chocolate so long as Indian manufacturers are debarred from obtaining different grades of

cocoa beans from different parts of the world and are restricted to the use of Ceylon beans. We are inclined to think that, when the restriction regarding the import of cocoa beans is removed and up-to-date machinery is installed, the quality should improve considerably. But, for raising the quality fully to the standard of the imports, it would be necessary for the Indian manufacturers to employ experienced foreign experts for a short while and this matter is being seriously considered by Sathes.

Cost of production.

13. (i) The cost of production of covering chocolate and cocoa powder at the factory of Sathe Brothers, in Poona, who are the principal manufacturers of these articles, was investigated. The firm is a proprietary concern and has two main lines of production, viz., (*a*) biscuits and (*b*) cocoa powder and chocolate. Till October 1944, it had kept combined accounts for the two sections, but from November 1944 onwards the accounts were separated. The firm has not kept its account on a systematic basis. Consequently, costs had to be built up with reference to the general financial account and with such data as could be gathered at the works. It was found that the best representative period available was the half-year ended the 30th April 1946. During this period, the factory manufactured 39·8 tons of sweet covering chocolate, 6·9 tons of unsweetened covering chocolate, 2·9 tons of milk chocolate and 12·4 tons of cocoa powder. Detailed costs of sweet covering chocolate and cocoa powder, the two principal articles manufactured, have been worked out in the following statement :—

Statement showing the cost of production for one lb. of covering chocolate and one lb. of cocoa powder for the half-year ended the 30th April 1946.

Output : 39·8 tons of sweet covering chocolate and 12·4 tons of cocoa powder.

	Covering chocolate.			Cocoa powder.		
	Quantity in lbs.	Rate per lb.	Amount.	Quantity in lbs.	Rate per lb.	Amount
		Rs.	Rs.		Rs.	Rs.
1. Materials—						
(*a*) Cocoa beans ..	1·194	0·5912	0·705	..	..	..
(*b*) Sugar ..	0·571	0·2221	0·128	..	..	..
(*c*) Flavour ..	..	..	0·002	..	..	0·015
(*d*) Cocoa cakes ..	..	..	..	1·103	0·44	0·485
Total ..	..	0·835	..	..	..	0·500
2. Power and fuel ..	..	..	0·017	..	..	..
3. Labour (including bonus) ..	..	..	0·051	..	..	0·048
4. Repairs and maintenance ..	..	..	0·012	..	..	0·018

	Covering chocolate			Cocoa powder		
	Quantity in lbs.	Rate per lb.	Amount.	Quantity in lbs.	Rate per lb.	Amount
		Rs.	Rs.		Rs.	Rs.
5. Consumable stores ..	..	..	0·002	..	..	0·002
6. Establishment ..	..	..	0·073	..	..	0·077
7. Depreciation ..	..	..	0·018	..	..	0·019
8. Other overheads ..	..	..	0·034	..	..	0·035
9. Packing charges ..	..	..	0·068	..	..	0·589
10. Selling expenses—						
(*a*) Advertisement ..	..	..	0·052	..	..	0·054
(*b*) Half parcel rate ..	..	..	0·053	..	..	0·053
11. Interest on working capital	..	..	0·010	..	..	0·014
Total ..			1·225			1·409
Less—						
Credit for material recovered (cocoa cake 0·384 lb. at Re. 0·44 per lb.).	..	..	0·169	..	..	..
Net total ..			1·056 or Rs. 1-0-11			1·409 or Rs. 1-6-5.

(ii) As cocoa butter has to be added for the production of covering chocolate, a portion of cocoa paste is subjected to a further process in which cocoa butter is extracted leaving cocoa cake. The credit for the cocoa cake left over has been given in the cost of production of covering chocolate. The cost of the cocoa cake has been estimated with reference to (1) cocoa butter extracted from cocoa paste, (2) cocoa butter still left in the cocoa cake, and (3) the prevailing market price of cocoa butter. The statement of cost of production of covering chocolate given above assumes that all the cocoa butter extracted from the cocoa paste is added in the manufacture of covering chocolate.

(iii) Working capital required has been taken as equal to the cost of production for 3 months and amounts to Rs. 66,000. Interest at 4 per cent. per annum on this sum comes to Rs. 2,640, and it has been distributed among the different products in proportion to the total costs of each product. Common overheads have been allotted in proportion to the direct labour employed for each product.

14. (i) Our estimate of the future cost of production for the next three years has been given in the following statement :—

Board's estimate of future cost of production.

Board's estimate of future cost of production of one lb. of sweet covering chocolate and one lb. of cocoa powder (1947-49).

Anticipated production per annum : 240 tons of sweet covering chocolate and 60 tons of cocoa powder.

	Covering chocolate			Cocoa powder		
	Quantity in lbs.	Rate per lb.	Amount.	Quantity in lbs.	Rate per lb.	Amount.
		Rs.	Rs.		Rs.	Rs.
1. Materials—						
(a) Cocoa beans ..	1·100	1·0714	1·179	..	..	..
(b) Sugar ..	0·571	0·2221	0·128	..	..	..
(c) Flavour ..	..	..	0·002	..	..	0·015
(d) Cocoa cakes ..	..	..	..	1·103	0·61	0·673
Total ..	..	..	1·309	..	..	0·688
2. Power and fuel ..	..	..	0·017	..	..	..
3. Labour (including bonus) ..	..	..	0·051	..	..	0·048
4. Repairs and maintenance ..	..	..	0·012	..	..	0·018
5. Consumable stores ..	..	..	0·001	..	..	0·001
6. Establishment ..	..	..	0·040	..	..	0·040
7. Depreciation ..	..	..	0·031	..	..	0·031
8. Other overheads ..	..	..	0·017	..	..	0·017
9. Packing charges ..	..	..	0·068	..	..	(not included).
10. Selling expenses (advertisement).	..	..	0·036	..	..	0·036
11. Interest on working capital .	..	..	0·016	..	..	0·016
Total ..	..	..	1·598	..	..	0·895

	Covering chocolate			Cocoa powder		
	Quantity in lbs.	Rate per lb.	Amount.	Quantity in lbs.	Rate per lb.	Amount.
		Rs.	Rs.		Rs.	Rs.
Less—						
Credit for materials recovered (cocoa cakes 0·352 lb. at Rs. 061 per lb.).	..	..	0·215	..	..	..
Net total ..	..	..	1·383 or Rs. 1-6-2	..	..	0·895 or Rs. 0-14-4

(ii) In drawing up the estimate, the capacity of the plant of the Sathe factory has been assumed to be 240 tons of chocolate and 60 tons of cocoa powder, and we are informed by the representatives of the industry that this would be an economic unit. Secondly, it was agreed that the quantity of cocoa beans required for the production of 1 lb. of chocolate should be taken at 1·100 lbs. as against the latest figure of 1·194 lbs. actually used in the factory. It was also agreed that the cost of cocoa beans should be reduced from Rs. 129·00 per cwt., the actual cost of the present stocks, to Rs. 120·00 per cwt., in anticipation of a possible fall in the c.i.f. price of beans from Rs. 97·10 to Rs. 90·00 per cwt. Even so, the cost of beans per lb. of chocolate works out to Rs. 1·179 as against the figure of Re. 0·705 adopted in their cost of production, thereby causing an increase of Re. 0·474 or Re. 0-7-7 in the estimated cost as against the latest actual cost. This is a rather unusual feature, but it is due to the fact that, whereas the present cost is based upon the use of earlier consignments of beans purchased at a c.i.f. price of Rs. 48·80 per cwt., the latest consignments have actually been bought at an average c.i.f. price of Rs. 97·10 per cwt., and the c.i.f. price assumed in the estimate, as stated above is Rs. 90 a cwt.

(iii) Appropriate reductions on account of larger production in future have been made in the items of consumable stores, establishment and other overheads. But the allowance for depreciation has increased from Re. 0·018 to Re. 0·031 per lb., because the firm contended that the plant to be installed by it is not a new one but a second-hand, reconditioned one, with the result that the increase of output would not be in proportion to the increase in the capital cost and that the cost of depreciation per lb. would increase a little. As the difference is a small one, Re. 0·013 or about 2 pies, we have allowed the claim.

(iv) While no reduction has been made in packing charges for chocolate, those for cocoa powder have been omitted. This has been done, firstly, because packing in tins is a costly item accounting for about Re. 0-9-4 out of a total of Rs. 1-6-5 in the present cost structure; and, secondly, because there is evidence to the effect that the greater part of the imported and local cocoa powder is sold with bulk packing, which costs little. It may be mentioned that the representatives of manufacturers agreed to this arrangement.

(v) The selling expenses consist of cost of advertisement and freight to destination at half the parcel rate. Sathe Brothers were spending in the past Rs. 1,300 a month on advertisement and claimed Rs. 4,000 per month for the future. We have reduced this to Rs. 2,000 per month, which works out to Re. 0·036 per lb. as against the present figure of Re. 0·052 per lb. As for freight at half parcel rate to destination, it is in the evidence that the importers of chocolate grant the concession of freight at full parcel rate to their customers, and Sathe Brothers have claimed that at least half the freight at parcel rate, which they are actually giving to their customers, would be a legitimate item of cost, the present cost on this account being Re. 0·053 per lb. We could not accept this contention, because the concession granted by the importers is met out of their selling commission and is not added to the landed cost, and because our scheme of protection aims at equating the fair selling price to the landed cost of imports. Total selling expenses per lb. are thus reduced from Re. 0·105 to Re. 0·036.

(vi) Working capital has been taken as equal to three months' cost of production, which amounts to Rs. 2·6 lakhs. Interest at 4 per cent. amounts to Rs. 10,400 and gives Re. 0·016 per lb. of covering chocolate and cocoa powder.

(vii) Credit for cocoa cake recovered and used in making cocoa powder has been given to the cost of production of chocolate. This comes to Re. 0·215 per lb. in the estimated cost as against Re. 0·169 in the latest actual cost.

(viii) The estimated future cost of production comes to Rs. 1-6-2 as against the latest actual cost of Rs. 1-0-11 per lb. of chocolate, and to Re. 0-14-4 as against the latest actual cost of Rs. 1-6-5 per lb. of cocoa powder. As already explained, the increase in the former case is accounted for by a rise in the price of cocoa beans, and the decrease in the latter case is mainly due to the omission of packing charges.

(ix) It should be noted that sweet covering chocolate is not a chemical compound with a fixed proportion of the constituent elements, but is rather of the nature of a mechanical mixture, the proportion of whose ingredients can be altered (though within certain limits). The estimate of cost given in the statement in sub-paragraph (i) above would, therefore, be applicable to a particular formula, but it can be easily altered by changing the proportion of the raw materials; for instance, the cost of covering chocolate can be reduced by adding more sugar, which is cheaper than cocoa paste, or by using vegetable ghee in place of cocoa butter. In fact, the Sathe factory has occasionally used vegetable ghee in lieu of cocoa butter. Of course, when vegetable ghee is used in place of cocoa butter, the cost of production of covering chocolate would be reduced, but the quality of the chocolate will also suffer.

Fair selling price.

15. In order to determine the fair selling price of covering chocolate and cocoa powder, we should add to the cost of production (i) profit on fixed capital and (ii) freight from Poona to Bombay. The fixed capital has been estimated at Rs. 3·93 lakhs. Profit at 10 per cent. on capital, as usually allowed by the Board, amounts to Rs. 39,300, and this works out to Re. 0·059 per lb. of chocolate and cocoa powder.

As regards freight from Poona to Bombay, it comes to Re. 0·040 per lb. The fair selling price of the two articles would thus be as follows :—

	Fair selling price per lb.	
	Covering chocolate.	Cocoa powder.
	Rs.	Rs.
Cost of production	1·383	0·895
Profit	0·059	0·059
Freight	0·040	0·040
Fair selling price	1·482 or Rs. 1-7-9	0·994 or Rs. 0-15-11

C.i.f. prices and landed costs.

16. The c.i.f. prices of imports vary according to quality and packing. The following figures as supplied by different importers indicate the recent c.i.f. prices and landed costs of imports of covering chocolate and cocoa powder :—

Covering chocolate (Nestles).

	Per case of 80 lbs.	per lb.
	Rs. a. p.	Rs. a. p.
c. i. f.	61 15 0	....
Clearing charges	0 8 0	....
Total ..	62 7 0	0 12 5·85
Duty at 30 per cent.	18 11 9	0 3 8·96
Landed cost including duty	81 2 9	1 0 2·81

Covering chocolates (South African).

	Per case of 999 lbs.	Per lb.
	Rs. a. p.	Rs. a. p.
c. i. f.	814 7 0	....
Clearing	1 2 0	....
Total ..	815 9 0	0 13 0·74
Duty at 30 per cent.	244 10 8	0 3 11·02
Landed cost including duty	1,060 3 8	1 0 11·76

Cocoa powder (Nestles).

	Bulk packing per case containing 56 lbs.	Per lb.
	Rs. a. p.	Rs. a. p.
c. i. f.	28 0 9	......
Clearing	0 8 0	......
Total ..	28 8 9	0 8 1·88
Duty at 30 per cent.	8 9 0	0 2 5·36
Landed cost including duty	37 1 9	0 10 7·24

Cocoa powder (Nestles).

	Small packing (½ lb. tins) per case of 72 lbs.	Per lb.
	Rs. a. p.	Rs. a. p.
c. i. f.	58 12 2	....
Clearing	0 8 0	....
Total ..	59 4 2	0 13 2·00
Duty at 30 per cent.	17 12 5	0 3 11·40
Landed cost including duty	77 0 7	1 1 1·40

Cocoa powder (Bourneville).

	Packed in ½ lb. tins per case of 72 lbs.	Per lb.
	Rs. a. p.	Rs. a. p.
c. i. f.	74 5 0	....
Clearing	1 4 0	....
Total ..	75 9 0	1 0 9·50
Duty at 30 per cent.	22 10 8	0 5 0·45
Landed cost including duty	98 3 8	1 5 9·95

Measure of protection.

17. An indication of the measure of protection necessary in this case would be obtained by a comparison of the fair selling prices with the landed costs of covering chocolate and cocoa powder per lb. as given below :—

	Covering chocolate.	Cocoa powder.
	Rs. a. p.	Rs. a. p.
1. Fair selling price	1 7 9	0 15 11
2. Incidence of the import duty on cocoa beans..	0 4 3	0 1 3
3. Fair selling price if there be a remission of the import duty on cocoa beans (1-2).	1 3 6	0 14 8
4. Lowest landed cost without duty ..	0 12 5·85	0 8 1·88
5. Duty at 30 per cent.	0 3 8·96	0 2 5·36
6. Landed cost with duty (4 + 5)	1 0 2·81	0 10 7·24
7. Excess of (3) over (6)	0 3 3·19	0 4 0·76

18. From the figures given above, it will be seen that, even with the remission of the duty on cocoa beans, the fair selling prices of covering chocolate and cocoa powder would be higher than the present landed costs (with duty at 30 per cent. *ad valorem*). The difference would be Re. 0-3-3·19 per lb. in the case of chocolate and Re. 0-4-0·76 per lb. in the case of cocoa powder. The gap amounts to about 20 per cent. of the present landed cost (with duty) of covering chocolate and about 40 per cent. of that of cocoa powder respectively. Even so, we do not think it desirable to recommend an increase in the present rate of duty, and our view is based on a number of considerations. In the first place, it is probable that the price of cocoa beans will go down if the present system of quota allotment is abandoned and Indian manufacturers are given facilities to obtain their supplies from different parts of the world. During the last five years, the price of cocoa beans from Ceylon ranged from Rs. 14 per cwt. in 1941 to Rs. 125 per cwt. (first quality) and Rs. 110 per cwt. (second quality) in 1946. We were informed that one firm in India obtained in August 1945 a quotation for Brazilian cocoa beans at Rs. 28 per cwt. for delivery in U. K. It was also stated by the Indian manufacturers that the latest c.i.f. quotation for West African cocoa beans in respect of English ports was 80 shillings or about Rs. 54 per cwt. Should the present restrictions on imports of cocoa beans be removed and the landed cost of beans fall in consequence, the cost of production of covering chocolate, and cocoa powder would be automatically reduced. Thus, for instance, if the landed cost without duty of beans falls by some 20 per cent. from Rs. 90 per cwt. (which has been assumed by us in the estimate of future costs of production) to Rs. 72 per cwt. the cost of production of chocolate per lb. will be reduced by about 3 annas. It may further be noted that, while the landed cost without duty of beans used by Sathe Brothers in the six months ended 30th April 1946 was Rs. 48·8 per cwt., the cost of cocoa beans now in stock and to be used in the near future is as high as Rs. 97·10. Though we had to allow this high price of beans in estimating the future cost of production because the price has been actually paid, we think it likely that

the cost of this item will go down to some extent. Besides, the price of beans we have assumed is that of the first quality Ceylon beans. But we are told that in practice different qualities of beans are mixed for obtaining a good flavour. It would follow that, provided facilities are given to the Indian manufacturers to obtain different qualities of beans from different countries, their cost will be further reduced. Secondly, it is also probable that the new machinery which is shortly to be installed by Sathe Brothers, Poona, will give a better performance than has been assumed in our estimate. Thirdly, though our terms of reference precluded us from extending the scope of our enquiry to include confectionery, and though we did not have the necessary data for estimating the cost of production of eating chocolate, we ascertained that there was not much difference between the production of covering chocolate and that of eating chocolate. Consequently, the existing revenue duty at 60 per cent. *ad valorem* on confectionery including eating chocolates, if continued, will give an additional protection to the cocoa powder and chocolate industry.

Protective duty on cocoa powder and covering chocolate.

19. In view of the factors discussed above, we recommend that the existing revenue duty of 30 per cent. *ad valorem* on cocoa powder and covering chocolate (item 18 of the Import Tariff Schedule) should be converted into a protective duty at the same rate and that the duty should remain in force for a period of not less than three years. It is probable that the termination of the protection period of three years in this case will not coincide with the closing date of the official financial year, *i.e.*, 31st March. It may therefore be administratively convenient for Government to extend the period of protection by a few months beyond three years so as to make its termination coincide with the closing date of the official financial year. We are, however, debarred by our terms of reference from recommending the grant of protection for a period of more than three years. It is therefore for Government to decide whether, for the sake of administrative convenience, the period should be so extended. There is at present a preferential rate of duty at 12 per cent. *ad valorem* in favour of imports from Burma. This preference should not be applicable in the case of the proposed protective duty.

Abolition of import duty on cocoa beans and provision of facilities for importing cocoa beans from West Africa and Brazil.

20. We also recommend that the present import duty at 30 per cent. *ad valorem* payable on cocoa beans (item 12 of the Import Tariff Schedule) should be removed. Cocoa beans are not produced in India and are not likely to be produced in the near future. Our information is that this article, if imported from Empire countries, is admitted free of duty into the United Kingdom and Australia. Moreover, removal of the duty in this case will be in conformity with the policy recently announced by the Government of India, Department of Finance, of abolishing or reducing the import duties on raw materials. And since we are not recommending any increase of the present rate of duty on covering chocolate and cocoa powder, the abolition of the duty on cocoa beans is the main form of assistance that should be given to this industry. We further recommend that the amount of customs duty actually paid on the imported cocoa beans after the date of reference of the case of this industry to the Board, *i.e.*, after the 16th February 1946, should be refunded. It is also necessary that facilities should be given to Indian manufacturers to import cocoa beans from West Africa and Brazil. This matter should be taken up by

the appropriate authority with the London Food Council and the Combined Food Board in Washington. We attach very great importance to this measure of assistance.

Maintenance of the present revenue duty on confectionery.

21. As we have explained above, the manufacture of covering chocolate and of eating chocolate is inter-related. The present duty on eating chocolate [item 17 (2) of the Import Tariff Schedule—Confectionery] is 60 per cent. *ad valorem.* The greater part of the import of confectionery comes in the form of eating chocolates. As the protective duty of 30 per cent. *ad valorem* which we have recommended for cocoa and covering chocolate does not cover the difference between the fair selling prices and the landed costs of imports, we think it desirable that some additional indirect protection to covering chocolate should be given, and this can be conveniently done by continuing the existing revenue duty at 60 per cent. *ad valorem* on confectionery including eating chocolates for the entire period of protection. In this case also, there is a preferential rate of duty at 12 per cent. *ad valorem* in favour of imports from Burma. In conformity with our scheme of protection this should be abolished. Where continuance of an existing revenue duty is considered necessary to safeguard a particular home industry, a Tariff Board recommends its conversion into a protective duty. In this case, however, we have followed the somewhat unusual course of recommending that the revenue duty on confectionery while remaining revenue duty should be continued at the present level as we consider that some security should be afforded to this industry to compensate for the high cost of cocoa beans and that in any scheme of revision of revenue duties the duty on confectionery should be treated as a special case requiring more than usual justification for a reduction therein. This recommendation is thus envisaged by us as a form of mild protection.

Refund of the duty on cocoa and chocolate machinery.

22. As already indicated in an earlier part of the report, the cocoa powder and chocolate industry in India has yet to instal up-to-date machinery in order to increase production and raise the quality of the product. Since this type of machinery is not manufactured in India, we recommend that there should be a refund of the import duty of 10 per cent. *ad valorem* payable on machinery (item 72 of the Import Tariff Schedule) required for the cocoa and chocolate industry with effect from the 1st August 1946.

An adequate quota of sugar to be given.

23. Sugar is an essential raw material for the chocolate industry. We recommend that so long as the present sugar control remains in force, an adequate quota of sugar should be given to the cocoa and chocolate industry so that the handicap of insufficient sugar in the way of increasing production may be removed.

Employment of foreign experts and formation of an Association.

24. We further recommend that the manufacturers of cocoa and chocolate should take steps to employ foreign experts for a short period. They should also form an Association for the purpose of collecting necessary economic and statistical data, making collective representations to Government regarding the supply of raw materials, and tackling other common problems as they arise.

Provision for inspection during period of protection.

25. We also recommend that Government should institute some short and summary enquiry into the industry to ensure that its development is proceeding on lines assumed by us in the body of this Report, with particular reference to (1) installation of new plant with bigger capacity, (2) price of cocoa beans, (3) quality of covering chocolate and cocoa powder, and (4) competition from abroad. This enquiry need not take the form of a formal reference to the Tariff Board. The work can well be carried out by an Inspector appointed for the purpose.

Burden of protection.

26. We have not recommended any increase in the duty on cocoa powder or chocolate. Consequently, the proposed scheme of protection in this case does not involve the imposition of any additional burden on the consumers. In any case, cocoa powder and chocolate are articles of luxury, and even if there be stabilisation of their prices at a somewhat higher level due to protection, the burden will fall on shoulders that are broad enough to bear it. Conditions are favourable for the establishment and development of this industry in the country, and there is no reason why advantage should not be taken of these circumstances in the larger interests of industrialisation and growing social benefits.

Eligibility for protection.

27. We have investigated the position of Sathe Brothers, the principal manufacturers of cocoa powder and chocolate, and we consider that, in the context of various wartime difficulties and handicaps, their business is being conducted on sound lines. They have shown initiative and enterprise in undertaking this line of manufacture, and their financial position is strong. As regards the future, it may be pointed out that the manufacture of these articles is not at all a difficult thing. If the Indian manufacturers can obtain facilities for the importation of cocoa beans without any restriction and if they can instal up-to-date machinery and secure the services of foreign experts for a short time, they should be able to improve the quality of their product and reduce the cost of manufacture to a considerable extent. We, therefore, think that this industry should be given just enough protection to enable it to survive foreign competition during the difficult and uncertain initial period. If this is done, the indigenous manufacturers are likely to be in a position to face foreign competition at the end of the present protection period, with the help of a moderate revenue duty.

Summary of recommendations.

28. Our recommendations are summarised as under :-

(1) The existing revenue duty of 30 per cent. *ad valorem* on cocoa powder and covering chocolate (item 18 of the Import Tariff Schedule) should be converted into a protective duty at the same rate, and the duty should remain in force for a period of not less than three years. The present preferential rate at 12 per cent. *ad valorem* in favour of imports from Burma should be abolished. (Paragraph 19.)

(2) The present import duty at 30 per cent. *ad valorem* payable on cocoa beans (item 12 of the Import Tariff Schedule) should be abolished. Further, the amount of customs duty already paid on imported cocoa beans, after the 16th February 1946 should be refunded. (Paragraph 20.)

(3) Facilities should be given to the Indian manufacturers of cocoa and chocolate to import beans from West Africa and Brazil or for that matter from anywhere in the world. (Paragraph 20.)

(4) The existing revenue duty at 60 per cent. *ad valorem* on confectionery including eating chocolate item 17 (2) of the Import Tariff Schedule should be continued as revenue duty for the entire period of protection. The present preferential rate at 12 per cent. *ad valorem* in favour of imports from Burma should be abolished. (Paragraph 21.)

(5) The revenue import duty at 10 per cent. payable on cocoa and chocolate machinery (item 72 of the Import Tariff Schedule) should be refunded with effect from the 1st August 1946. (Paragraph 22.)

(6) So long as the present sugar control remains in force, an adequate quota of sugar should be given to the manufacturers of cocoa and chocolate. (Paragraph 23).

(7) The manufacturers of cocoa and chocolate should take steps to employ foreign exports for a short period and also to form an Association. (Paragraph 24.)

(8) A summary enquiry through an Inspector should be made in the middle of the period of protection to ensure that the development of the industry is taking place on lines assumed in the Report. (Paragraph 25.)

Acknowledgments.

29. The Board wishes to thank Mr. V. A. Mehta of the Department of Food, Government of India, for his help and advice, Mr. P. V. R. Rao, Cost Accounts Officer attached to the Board, for investigating the cost of production at Sathe Chocolate Works, Poona, at short notice, and Dr. V. V. Kelkar, the Board's Technical Adviser, for technical assistance during the enquiry.

SHANMUKHAM CHETTY—President.

C. C. DESAI—Member-Secretary.

NAZIR AHMAD—Member.

H. L. DEY—Member.

RAMA VARMA—Assistant Secretary.

Bombay, the 13th August 1946.

APPENDIX I

DEPARTMENT OF COMMERCE

RESOLUTION

TARIFFS

New Delhi, the 3rd November 1945.

No. 218-T(55)/45.—In the statement on industrial policy issued by the Government of India on the 23rd April 1945, it was announced that, pending the formulation of a tariff policy appropriate to the post-war needs and conditions of the country and the establishment of permanent machinery for the purpose, Government would set up machinery for investigating claims from industries, which have been started or developed in war-time and which are established on sound lines, to assistance or protection during the transition period. A press communique issued on the same date invited industries to address their claims to the Secretary to the Government of India in the Department of Commerce.

2. Several industries have accordingly applied for assistance or protection, and on a preliminary examination of their claims, the Government of India have come to the conclusion that applications submitted by the following industries call for a detailed examination:—

(i) non-ferrous metals, including antimony;

(ii) grinding wheels;

(iii) caustic soda and bleaching powder;

(iv) sodium thiosulphate, sodium sulphite anhydrous, sodium bisulphite;

(v) phosphates and phosphoric acid;

(vi) butter colour, aerated water powder colour;

(vii) rubber manufactures;

(viii) fire hose;

(ix) wood screws;

(x) steel hoops for baling.

Other applications are under the consideration of Government, and further action in their case will be taken in due course.

3. In addition to the industries which have applied for assistance or protection, there are certain industries the starting of which was considered essential by the Government of India under conditions created by the war. Early in 1940, Government announced that specified industries promoted with their direct encouragement during war-time might feel assured that, if they were conducted on sound business lines, they would, by such measures as Government might devise, be protected against unfair competition from outside India. In accordance with this

decision, the following industries have been given an assurance of protection against unfair competition after the war :—

(i) bichromates ;

(ii) steel pipes and tubes up to a nominal bore of 4 inches ;

(iii) aluminium ;

(iv) calcium chloride ;

(v) calcium carbide ;

(vi) starch.

Of these industries, only those engaged in the manufacture of bichromates, calcium chloride and starch have so far applied for assistance or protection during the transition period. The Government of India consider that the applications submitted by these three industries also call for immediate investigation.

4. For the purpose of these and any subsequent investigations, the Government of India have decided to set up a Tariff Board for a period not exceeding two years, in the first instance. The Board will consist of :—

PRESIDENT :

Sir R. K. Shanmukham Chetty, K.C.I.E.

MEMBERS :

Mr. C. C. Desai, C.I.E., I.C.S.

Professor H. L. Dey, D.Sc. (London).

The Board will include one more Member whose name will be announced shortly. Mr. Desai will act as Secretary to the Board in addition to his duties as Member.

5. The Tariff Board is requested to undertake, in such order as it thinks fit, the investigation of claims put forward by the industries specified in paragraphs 2 and 3 above. In the case of each industry the Board will, after such examination as it considers necessary, report whether the industry satisfies the following conditions :—

(1) that it is established and conducted on sound business lines ; and

(2) (*a*) that, having regard to the natural or economic advantages enjoyed by the industry and its actual or probable costs, it is likely within a reasonable time to develop sufficiently to be able to carry on successfully without protection or State assistance ; or

(*b*) that it is an industry to which it is desirable in the national interest to grant protection or assistance and that the probable cost of such protection or assistance to the community is not excessive. Where a claim to protection or assistance is found to be established, *i.e.*, if condition (1) and condition (2) (*a*) or (*b*) are satisfied, the Board will recommend—

(i) whether, at what rate and in respect of what articles, or class or description of articles, a protective duty should be imposed ;

(ii) what additional or alternative measures should be taken to protect or assist the industry; and

(iii) for what period, not exceeding three years, the tariff or other measures recommended should remain in force.

In making its recommendations the Board will give due weight to the interests of the consumer in the light of the prevailing conditions and also consider how the recommendations affect industries using the articles in respect of which protection is to be granted. Since relief, to be effective, should be afforded without delay, the Board is requested to complete its enquiries with all possible expedition and to submit a report as soon as the investigation of the claim of each industry is concluded.

6. The headquarters of the Board will be at Bombay, but it will visit such other places as it thinks necessary for purposes of its enquiries. Firms and persons interested in any of these industries, or in industries dependent on the use of the products of these industries, who desire that their views should be considered, should address their representations to the Secretary to the Board.

7. Any claims hereafter received from other industries which in the opinion of the Government of India are suitable for examination by the Board will be referred to the Board in due course for examination.

8. The Government of India trust that Provincial Governments and Administrations will afford the Board all the assistance which it may require and will comply with any request for information which may be addressed to them by it.

N. R. PILLAI,

Secretary.

APPENDIX II

GOVERNMENT OF INDIA

Department of Commerce

New Delhi, the 16th February 1946

RESOLUTION

TARIFFS

No. 218-T (55)/45.—In pursuance of paragraphs 2, 3 and 7 of their Resolution in the Department of Commerce, No. 218-T (55)/45, dated the 3rd November 1945, the Government of India have decided to refer to the Tariff Board for investigation applications for assistance or protection received from the following industries, namely :—

(i) Glucose ;

(ii) All Abrasives other than Grinding Wheels ;

(iii) Hurricane Lanterns ;

(iv) Cocoa powder and Chocolate ;

(v) Aluminium ;

(vi) Preserved Fruits.

2. In making its enquiries, the Board will be guided by the principles laid down in paragraph 5 of the Resolution referred to above.

3. Firms or persons interested in any of these industries or in industries dependent on the use of these articles, who desire that their views should be considered by the Tariff Board, should address their representations to the Secretary to the Board, Caltex House, Ballard Estate, Bombay 1.

4. Similar announcements will be made from time to time regarding claims from other industries found suitable for examination by the Board.

N. R. PILLAI,

Secretary to the Government of India.

APPENDIX III

List of firms, associations and persons who submitted representations to the Board.

1. The Mahratta Chamber of Commerce, Poona.

2. Sathe Brothers, Poona.

3. Sathe Sind Chocolate Works, Karachi.

4. G. G. Chocolate Factory, Agra.

5. Dr. D. Writer & Co., Bombay.

6. The Pure Products Ltd., Bombay.

7. Magnolia Dairy Products Ltd., Calcutta.

8. Indian Confectionery Manufacturers' Association, Calcutta.

9. Cadburry-Fry Export Department, Bombay.

10. Nestle and Anglo Swiss Condensed Milk (Export) Co., Ltd., Calcutta.

11. Grahams Trading Co. (India), Ltd., Bombay.

12. Marosa & Co., Bombay.

13. The Indian Merchants' Chamber, Bombay.

14. The Cocoa and Chocolate (Wartime) Association and the Sugar Confectionery (Wartime) Association, London.

APPENDIX IV

List of witnesses examined.

Date—22nd July 1946.

	Represented by—
Importers—	
Nestle and Anglo Swiss Condensed Milk (Export) Co., Ltd., Calcutta.	Mr. L. Mills, Manager in India.
Cadburry-Fry Export Department, Bombay .	Mr. R. Preston, Manager of Messrs. Herbertson Ltd., (Agents for Cadburry-Fry).
Consumers—	
Messrs. Marosa & Co., Ltd., Bombay ..	Mr. J. V. D'Souza and Mr. Phillip Lobo.
Producers—	
Sathe Chocolate Works, Poona ..	Mr. G. R. Sathe.
Sathe Sind Chocolate Works, Karachi ..	Mr. H. R. Hingorani.
G. G. Chocolate Factory, Agra ..	Mr. Krishnaprasad Bhargava and Mr. M. K. Tikkoo.
Pure Products Ltd., Bombay ..	Dr. H. R. Nanjee.
Dr. D. D. Writer & Co., Bombay ..	Mr. J. D. Writer.

APPENDIX V

APPENDIX V

Statement showing the quantity and value of imports of cocoa and chocolate into India since 1936-37

		1936-37.	1937-38.	1938-39.	1939-40.	1940-41.	1941-42.	1942-43.	1943-44.	1944-45.	1945-46. (9 months from April to December 1945.)
I. Quantity of Imports from—											
(1) U. K.	.. Cwts. (000) ..	4·29	3·83	3·20	3·64	3·27	1·71	0·57	0·03	Information not available.	Information not available.
(2) Union of South Africa.	,,	..	..	..	..	..	0·79	4·12	3·19	,,	,,
(3) Common Wealth of Australia.	,, ..	..	..	..	..	0·02	1·31	0·34	0·07	,,	,,
(4) Netherlands ..	,, ..	0·34	0·19	0·27	0·28	0·13	..	..	..	,,	,,
(5) Belgium ..	,, ..	0·34	0·41	0·44	0·20	0·05	..	..	..	,,	,,
(6) Switzerland ..	,, ..	0·05	0·09	0·07	0·12	0·02	..	..	..	,,	,,
(7) U. S. A. ..	,, ..	0·02	0·04	0·01	0·04	0·09	0·11	..	0·03	,,	,,
(8) Other countries.	,, ..	0·03	0·03	0·02	0·03	0·10	0·71	0·62	0·64	,,	,,
Total imports ..	,, ..	4·08*	4·59	4·01	4·31	3·68	4·63	5·65	3·96	2·69	2·34
II. Value of Imports from—											
(1) U. K.	.. Rs. (Lakhs) ..	3·08	2·89	2·22	2·49	2·22	1·28	0·49	0·05	Information not available.	Information not available.

(2) Union of South Africa.	,,	..	..	..	..	..	..	0·43	2·35	2·00	,,	,,
(3) Common Wealth of Australia.	,,	..	..	..	..	..	0·01	0·88	0·21	0·08	,,	,,
(4) Netherlands ..	,,	..	0·38	0·24	0·31	0·28	0·13	..	..	..	,,	,,
(5) Belgium ..	,,	..	0·18	0·27	0·34	0·13	0·02	..	..	..	,,	,,
(6) Switzerland ..	,,	..	0·03	0·06	0·06	0·13	0·01	..	..	..	,,	,,
(7) U. S. A. ..	,,	..	0·02	0·03	0·01	0·02	0·11	0·07	..	0·03	,,	,,
(8) Other countries .	,,	..	0·12	0·03	0·01	0·03	0·05	0·62	0·50	0·34	,,	,,
Total Imports ..	,,	..	2·98*	3·52	2·95	3·08	2·55	3·28	3·55	2·50	2·08	2·50

*Excluding imports into Burma.